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Central Intelligence Agency



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14 July 1982

MEMORANDUM FOR: The Honorable R. T. McNamar  
Deputy Secretary of the Treasury

FROM :   
Acting Director  
Office of Soviet Analysis

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SUBJECT : Census Bureau Report on the  
Domestic Value of Soviet Foreign Trade

1. The recent Commerce Department press conference summarizing a forthcoming Census Bureau report ("The Domestic Value of Soviet Foreign Trade: Exports and Imports in the 1972 Input-Output Table") is being touted in the press as evidence that the USSR is more vulnerable to economic sanctions than has been suggested previously. According to the headline in the The New York Times, the "U.S. Says Rise in Trade by Soviet Makes it Vulnerable to Sanctions." The research, which we think is both sound and thorough, does show that the ratio of imports to national income (Soviet style) is higher when imports are valued in domestic prices than when they are priced at official foreign exchange rates. We believe, however, that the press coverage implies a greater degree of Soviet dependence on East-West trade than is actually the case and ignores the problems that are encountered in translating dependence into leverage.

#### The Research Effort

2. The Census study is an attempt to reconstruct the values for foreign trade in the 1972 Soviet input-output table. Because the ruble is not convertible and Soviet price agencies pay little attention to world prices in selling domestic prices, Soviet domestic prices are very different from foreign trade prices for similar commodities when the foreign trade prices are converted at the official exchange rate. Although the USSR converts values for foreign trade from transaction prices to domestic prices when constructing national income and input-output accounts, these values are not published officially.

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3. The main research conclusions are as follows:

- The ratio of Soviet exports (domestic prices) to national income (Marxist definition) is higher than the ratio based on exports converted at the official exchange rate. In the 1970s, exports (excluding gold) averaged about 6.5 percent of national income and rose to 7 percent by 1980.
- The ratio of Soviet imports to national income is much higher when the value of imports is adjusted to a domestic price base. The adjusted ratio, moreover, rose from about 9 percent in 1970 to about 20 percent in 1980.
- Imported machinery comprises from 15 to 20 percent of all newly installed equipment in the USSR.
- Imported consumer goods and agricultural products account for about 15 percent of all consumption.

Trade Ratios, Dependence, and Leverage

4. We believe these measurements overstate Soviet dependence on the West in the following ways:

- Soviet national income does not cover the full range of goods and services included in gross national product as defined in the West. In 1980, imports amounted to about 15 percent of Soviet GNP, roughly 5 percentage points lower than the number calculated in the Census report.
- The estimates quoted in press reports reflect total Soviet trade, including trade with client states and trade with LDCs that is settled bilaterally. Imports that the Soviets had to pay for in hard currency were equal to about 5 percent of Soviet GNP, while hard currency imports accounted for less than 10 percent of Soviet investment in machinery and equipment.
- Much of the rise in the ratio of imports to Soviet national income Soviet style is explained by the more rapid rise in prices paid for imports than in the prices prevailing in domestic economy. In 1980, the ratio of imports to national income was 10 percent in current prices and about 8 percent in 1970 prices. While the inflation in import prices imposed a burden, the USSR benefited from an even more rapid rise in the prices paid for its exports, especially energy and raw materials.

5. These ratios thus give a very fuzzy picture of the Soviet dependence on East-West trade. The numbers being cited are too general to show where the key dependencies lie--as in grain, where the Brezhnev livestock program cannot be sustained without imports from the West or in energy, where Soviet

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requirements cannot be satisfied without Western pipe and equipment. (a) (Attached is a copy of our recent memorandum, "Soviet Economic Dependence on the West", in which we analyze relative Soviet dependence by sector.) In any event, whether Soviet dependence on East-West trade in certain sectors can be used for leverage--the ability to persuade the Kremlin to change its policies--is highly uncertain. For leverage to be effective, not only would the Western countries trading with the Soviet Union have to maintain a common front, the Soviet leadership would have to swallow the idea of bowing to Western pressure. (b) (The attached copy of our January 1981 memorandum, "USSR: Impact of Economic Denial Measures," discusses the difficulties encountered by the Afghan sanctions.)

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Attachments: (a) SOV 82-10012, January 1982  
As Stated (b) ER 81-10021, January 1981

(SOV M 82-10106)

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